

MONTANA BOARD OF HOUSING
INVESTMENT POLICY
Effective 4/13/2000
Board Reviewed November 17, 2006

The Investment Policy of the Board of Housing is as follows:

- I. Investment Committee:
 - A. The Board shall have an Investment Committee which shall be responsible for oversight of the Investment of the assets of the Montana Board of Housing.
 - B. Membership of Committee:

All Board members will be on the committee with the Board Chairman designating the Chairman of the committee.
 - C. Frequency of Meetings:

The committee shall meet at least once a year.
 - D. Functions of the Investment Committee of the Board shall be:
 1. To review compiled investment reports;
 2. To review the functioning of the investment policy for potential enhancement;
 3. To review the return on assets of the Board; including reviewing a report that shows the status of any negative or positive rebate earnings for each bond series.
 4. To address any staff concerns regarding investments or the investment policy; and,
 5. To monitor compliance with the investment policy.
- II. Section 90-6-104, Montana Code Annotated, which outlines the general powers of the Board, includes subsection 13 which states:

"The Board may invest any funds not required for immediate use, **subject to any agreements with its bondholders and note holders**, as provided in Title 17, Chapter 6, except all investment income from funds of the Board less the cost for investment as prescribed by law shall be deposited in the housing authority enterprise fund." (Emphasis added)
- III. All investments shall be made in accordance with the prudent expert rule as contained in Chapter 17, Part 6, Montana Code Annotated, the requirements of the particular indenture, and the Internal Revenue Code.
- IV. Permissibility of investments, security, liquidity and rate of return on investments are of primary concern. The Board has a responsibility in the investment of funds to seek the

highest rate of return available in the market consistent with the legality, security, liquidity, cash flow and programmatic requirements of each fund for which they are invested. The Board also has a responsibility to diligently monitor and calculate (or cause to be calculated) any arbitrage rebate required to be remitted to the federal government.

- V. The Board shall not invest in leveraged investments, including but not limited to derivative investments which involve leveraging. Investments are to be made with the expectation that they will be held to maturity; investments are not to be made with the intention of participating in trading activities to generate investment return.

Sales of securities should be limited to the following:

1. A sale and subsequent purchase would improve the quality or yield of the portfolio.
2. Liquidity needs of the portfolio require that the security be sold.
3. A sale of an investment is necessary as a result of refunding a bond issue.

Sales other than the abovementioned should be approved by the Executive Director.

- VI. The Board may invest in the following securities providing such securities meet the requirements of Section 17-6-103, MCA:

- A. Direct obligations of or obligations guaranteed by the United States of America, which includes certificates of ownership in the guaranteed portion of loans guaranteed by the Rural Housing and Community Development Service of the United States Department of Agriculture (formerly the Farmers Home Administration), participation certificates in obligations of the General Services Administration, obligations guaranteed by the U.S. Maritime Administration pursuant to Title XI, Small Business Administration guaranteed participation certificates and guaranteed pool certificates, mortgage-backed securities and pool certificates guaranteed by the Government National Mortgage Association, transit bonds guaranteed by the Washington Metropolitan Area Transit Authority, and Veterans Administration guaranteed REMIC securities and pass-through certificates;

- B. Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following:
1. Farm Credit System or predecessors (the Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives);
 2. Federal Home Loan Bank System;
 3. Export-Import Bank of the United States;
 4. Federal National Mortgage Association, (only senior debt obligations or mortgage-backed securities, but excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts and excluding interest-only strips);
 5. Federal Home Loan Mortgage Corporation, (only senior debt obligations and participation certificates, but excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts and excluding interest-only strips);
 6. Tennessee Valley Authority;
 7. Student Loan Marketing Association (only SLMA letter of credit backed issues and senior debt obligations, but excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at a maturity or call date);
 8. Federal Financing Corporation;
 9. Resolution Funding Corporation.
- C. Certificates of deposit issued by, or time deposits with any financial institution (including a trustee, a lender or a paying agent) insured by the FDIC and provided further that such time deposits or certificates of deposit, to the extent not insured by the Federal Deposit Insurance Corporation, are fully secured by obligations of the type specified in parts A and B above which have a market value, exclusive of accrued interest, at least equal to the amount of such deposits. In no case shall the investment result in a reduction of the ratings by Standard & Poor's Rating Services or by Moody's Investors Services on the applicable bond series.
- D. Repurchase agreements or guaranteed investment agreements but only if:
1. The agreement is fully collateralized in an amount equal to 102% of the principal and interest of the agreement, by obligations of the type specified in A, B or C above and which collateral is delivered out and held by the Trustee or its agent, and the collateral is marked to market at least weekly; and

2. The agreement is with (i) a financial institution as described under part C above (and including the subsidiary of a foreign bank) organized under the laws of the United States of America or any state thereof and subject to supervision by the appropriate authorities of either the United States of America or the state under which whose laws it is organized, or (ii) a financial institution (i.e. banks, insurance companies, etc.) organized under the laws of the United States of America or any state thereof and either (a) whose unsecured obligations are rated in either of the two highest rating categories by Standard & Poor's and Moody's Investors Services or (b) whose obligations under such agreement are unconditionally guaranteed by such a financial institution which is rated as provided in 2(ii)(a).
3. In no case shall the investment result in a reduction of the ratings by Standard & Poor's Rating Services or by Moody's Investors Services on the applicable bond series; and
4. The Agreements shall be written to give the Board the maximum practical flexibility in the case of a downgrade in the rating of the provider.

E. Any investments permitted for State funds, but only with respect to the investment of Board moneys held by the State Treasurer in the Housing Authority Enterprise Fund.

All Funds invested with the State that are not needed for current operating expenses shall be invested in the State's Short-Term investment pool.

VII. In no case may the Board or a trustee invest in any one financial institution an amount in excess of the net worth of that financial institution or its guarantor.